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Testimony by Sue Ann Lee, President  
Honolulu Board of Realtors

Regarding Bill 7 – Relating to Real Property Taxation

Honolulu City Council  
Wednesday, February 8, 2017  
Honolulu Hale

Aloha Chair Manahan and City Council Members,

The Honolulu Board of REALTORS (HBR) appreciates Bill 7 relating to real property taxation to establish tax rate at residential class up to \$999.999 related to Residential A properties, which would go a long way to achieve more fairness. However, HBR continues to have some concerns about Residential A which are not sufficiently addressed by this bill. We therefore propose amendments which we believe provide additional measures to create a more equitable approach to the classification of homes lacking the homeowner exemption.

HBR proposes a graduated tiered approach which helps to avoid the cliff effect and also propose setting the threshold as a multiple of the median home price on Oahu (\$735,000 in 2016). With the rising median prices, the industry standard for the luxury property market actually begins at \$2 million and not the \$1 million threshold established for Residential A. We propose that the higher tax rate for Residential A begin at \$2 million (less than three times (2.8) the median price). Subsequent levels would be set at \$4 million (five times (5.5) the median price), \$6 million (eight times (8.1) the median price), etc. This option allows the city to generate revenue directly tied to the appreciation of property on Oahu. As the median price of a home on Oahu increases year after year, so will the beginning tax rate for Residential A. And concurrently, the revenue generated to the City will also increase.

In today's market, many modest homes are valued and taxed at the one million dollar level. Most at risk of this inequitable tax classification is our aging population and their ohana who have owned older Oahu homes for generations and which tend to be in areas with higher property values such as Manoa or Pauoa and many of the mauka areas around town like St. Louis or Pacific Heights. This amendment – to tie the tiered rate to the median price – would address the burden placed on local families whose property values are inflated due to Oahu's rising cost of homeownership.

HBR has also been in discussion with council members about the possibility of replacing the Residential A property tax classification with an Income Property tax classification for residential dwellings. The property tax structure would be tiered as proposed by HBR and

which appropriately parallels the state conveyance tax tiered system. This proposed land class has the flexibility to address future taxation of TVR, B&B, etc. Current exemptions would apply to the property tax classification including properties whose owners transitioned to long term care and properties rented to low income households.

Mahalo for your consideration.